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SENSITIVE
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TAGS: [EAIR](#) [ECON](#) [ECIN](#) [HK](#)
SUBJECT: HONG KONG'S AIRPORT AUTHORITY INVESTING IN CHINA'S AIRPORTS

¶1. (SBU) SUMMARY: On October 12, the government-owned Airport Authority of Hong Kong (AAHK) entered into a twenty-year contract with the Shanghai Airport Authority (SAA) to co-manage Shanghai's Hongqiao Airport. This USD 14.6 million joint venture deepens cooperation between the two aviation authorities and adds to AAHK's portfolio of Mainland airport investments that include the Zhuhai Airport, Hangzhou Xiaoshan International, ad-hoc projects with Beijing Capital International, cooperation with nearby Shenzhen International, and its training services to Mainland airports at the AAHK Airport Management Academy. END SUMMARY

¶2. (SBU) On October 12, the Airport Authority of Hong Kong (AAHK) announced the establishment of the Shanghai Hong Kong Airport Management Co., Ltd., a joint venture with the Shanghai Airport Authority (SAA) for the management of Shanghai's Hongqiao Airport. AAHK will invest USD 7.2 million for a 49% equity interest in this USD 14.6 million joint venture while SAA will acquire the remaining 51%. SAA's Executive Vice President Li Derun suggested to Shanghai press that SAA was considering the possibility of inviting AAHK to become a strategic investor in SAA, which also manages Shanghai's Pudong International Airport.

Expansion Beyond Neighboring Pearl River Delta

¶3. (SBU) AAHK's recent Shanghai investment adds to its growing Mainland portfolio. AAHK has managed nearby Zhuhai Airport with the Zhuhai Municipal People's Government since ¶2006. It coordinated airport activities and upgrades for the Zhuhai-hosted 7th China International Aviation and Aerospace Exhibition in 2008. AAHK also holds a 35% interest in Hangzhou Xiaoshan International Airport, the Mainland's fastest growing passenger airport, with 8% growth in 2008. In Beijing, AAHK shared expertise and conducted training for Beijing Capital International Airport's third terminal in 2007, and provided on-site support during the terminal's opening in 2008 and throughout the Olympics and Paralympics.

¶4. (SBU) AAHK's Airport Management Academy caters to Mainland airports and civil aviation bodies, providing training to over 3,600 participants since 2002. AAHK is also collaborating closely with its sole shareholder, the Hong Kong Special Administrative Region Government (HKSARG), in the planning of major infrastructure projects linking Hong Kong to the Mainland, including the Hong Kong-Zhuhai-Macau Bridge and a high-speed rail link between Hong Kong and Shenzhen. The HKSARG has decided to locate the Bridge's Hong Kong border crossing next to the Hong Kong International Airport (HKIA), while the rail link will connect HKIA with Shenzhen and its airport.

Investments in China Paying Off

¶5. (SBU) For its financial year ended March 31, AAHK declared a dividend of Hong Kong Dollar (HKD) 2.2 billion (USD 283 million). This is a 10% increase over 2008 and includes a profit of HKD 193 million (USD 24.8 million) from its Hangzhou Xiaoshan International venture. Its Zhuhai Airport operation broke even for the first time in 13 years.

Economic Blow Softened but Throughput Still Down

¶6. (SBU) AAHK has offered incentives to airlines operating at HKIA to mitigate the effects of the global financial crisis. On October 16, the HKSARG announced that an existing incentive arrangement will be extended until December 2010 -- airlines flying between Hong Kong and a new destination will receive a 75% landing charge rebate between January to June and a 25% rebate from July to December.

¶7. (U) Total air traffic movements at the AAHK-managed HKIA slowed by 8% in September to 22,570. Passenger throughput for the month declined 3.5% compared to September 2008, to 3.5 million, and remains down 6.6% for the year with a total of 34.2 million passengers from January to September 2009. On a 12-month basis, passenger throughput is down 6% year-on-year, to 46.2 million. Air cargo throughput dropped 4.3% in September, to 304,000 tons. On a 12-month basis,

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total air cargo volume is down by 16% to 3.2 million tons, with continued double digit declines primarily in exports and transshipments to Europe, North America, Taiwan and Japan.

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